



UI Rate Computation How is my rate determined?

Step 1.

- **Determine the applicable Rate Schedule**

The Indiana Code (22-4-11-3.3) provides that one of five rate schedules for the next year (2006) be adopted that corresponds to the ratio resulting when the Unemployment Insurance Trust Fund balance, as of September 30th of the current year (2005), is divided by the total payroll of all subject employers for the prior calendar year (2004). Schedule "A" is applicable for Calendar year 2006.

The Fund Ratio Schedule and determining the applicable Rate Schedule

The fund ratio is a numerical evaluation of the UI Trust Fund in which the balance in the Trust Fund as of September 30 is divided by the total payroll of all liable Indiana employers for the preceding calendar year. The fund ratio is applied to the Fund Ratio Schedule to determine the applicable rate schedule.

| | |
|---|---|
| Unemployment insurance Benefit Trust Fund Balance as of computation date | |
| FUND RATIO = | ----- Total payroll of all subject employers for the immediately preceding calendar year |

Fund Ratio Schedule

When the Fund Ratio is:

| <u>As much as</u> | <u>But less than</u> | <u>Applicable Schedule</u> |
|-------------------|----------------------|--------------------------------|
| | 1.00% | A |
| 1.00% | 1.50% | B |
| 1.50% | 2.25% | C |
| 2.25% | 3.00% | D |



Step 2

- **Identifying individual employer contribution Rates**

The unemployment insurance contribution rates for the following year are Computed based on each employer's account status as of June 30—the computation date—and the past thirty-six (36) months payroll. In order to qualify for a merit rate or low rate the following requirements must be met.

- A. (New Employer) The employer must have been liable and an active operating employer throughout the 36 consecutive calendar months immediately preceding the June 30th, computation date.
- B. The employer must have some wages in each of the three 12 month periods immediately preceding the June 30, computation date.
- C. Employer must submit timely all required quarterly reports and pay all contributions, interest and penalty due and owing. The employer who has not filed all required quarterly reports through the computation date, or has failed to pay the contributions, interest, or penalty owed for those quarters, fail this requirement. If applicable, you are notified by a Merit Rate Delinquency Letter (Form 1171). If you did not respond to resolve the issue within 10 days from the date of the merit rate delinquency notification you will receive the penalty rate. Indiana Code 22-4-11-2(c) states that an “employer’s rate shall not be less than 5.4%” for failure to comply”. This rate is divided into two parts, a contribution tax rate and a penalty rate, which together equal 5.6% for 2006. Indiana Code 22-4-25-1 provides that all penalty monies collected shall be deposited into the Special Employment and Training Services Fund administered by the Unemployment Insurance Board.

Employers that meet the requirements A, B, or C then qualify for a system calculation based on their own merit and experience balance.



Step 3.

- **Determining experience rate ratio and contribution rate**

Employers with credit reserve balances (state UI taxes paid exceed benefits charged) to their account are evaluated by comparing this balance with the prior thirty-six (36) months total taxable wages reported, giving the credit reserve ratio. This ratio is used to determine each individual employer's tax rate according the rate schedule for accounts with credit balances. The tax rates will range from 1.1 percent to 4.1 percent for these employers depending upon the schedule in effect for the year.

A. Credit balance experience accounts

The experience account credit balance as of the computation date, June 30th, (includes all timely contribution payments made for the quarter in which the computation occurs) is divided by the total taxable wages of the employer or predecessors for employment during the thirty-six (36) months immediately preceding the computation date. The credit reserve ratio results from this calculation.

| | |
|------------------|---|
| Credit Reserve = | Experience Account credit balance as of computation date |
| Ratio | ----- Total taxable wages paid by the employer or predecessors for employment during the thirty-six (36) months immediately preceding the computation date |

Example Credit Ratio: Experience Balance divided by the 36 month payroll equals a ratio. The ratio is then applied to the applicable schedule listed below, and this is his rate for the next year effective 1-1-YY.



Credit Balance Schedules

RATE SCHEDULE FOR ACCOUNTS WITH CREDIT BALANCES

When the Credit Reserve Ratio is:

| As Much As | But Less Than | Rate Schedules (%) | A | B | C | D | E |
|------------|---------------|--------------------|-------|-------|-------|-------|-------|
| 3.00 | | 1 .10 | 0 .10 | 0 .10 | 0 .10 | 0 .10 | 0 .15 |
| 2.80 | 3 .00 | 1 .30 | 0 .30 | 0 .10 | 0 .10 | 0 .10 | 0 .15 |
| 2.60 | 2 .80 | 1 .50 | 0 .50 | 0 .10 | 0 .10 | 0 .10 | 0 .15 |
| 2.40 | 2 .60 | 1 .70 | 0 .70 | 0 .30 | 0 .10 | 0 .10 | 0 .20 |
| 2.20 | 2 .40 | 1 .90 | 1 .10 | 0 .70 | 0 .30 | 0 .30 | 0 .40 |
| 1.80 | 2 .00 | 2 .30 | 1 .30 | 0 .90 | 0 .50 | 0 .50 | 0 .60 |
| 1.60 | 1 .80 | 2 .50 | 1 .50 | 1 .10 | 0 .70 | 0 .70 | 0 .80 |
| 1.40 | 1 .40 | 2 .90 | 1 .90 | 1 .50 | 1 .10 | 1 .10 | 1 .20 |
| 1.00 | 1 .20 | 3 .10 | 2 .10 | 1 .70 | 1 .30 | 1 .30 | 1 .40 |
| 0.80 | 1 .00 | 3 .30 | 2 .50 | 2 .10 | 1 .70 | 1 .70 | 1 .80 |
| 0.40 | 0 .60 | 3 .70 | 2 .70 | 2 .30 | 1 .90 | 1 .90 | 2 .00 |
| 0.20 | 0 .40 | 3 .90 | 2 .90 | 2 .50 | 2 .10 | 2 .10 | 2 .20 |
| 0.00 | 0 .20 | 4 .10 | 3 .10 | 2 .70 | 2 .30 | 2 .30 | 2 .40 |

B. Debit balance experience accounts

The experience account debit balance as of the computation date includes all timely contribution payments made for the quarter in which the computation date occurs, and is divided by the total payroll of the employer or predecessors for employment during the thirty-six (36) months immediately preceding the computation date. The debit ratio results from this calculation.

$$\text{Debit Reserve Ratio} = \frac{\text{Experience account debit balance as of computation date}}{\text{Total taxable wages paid by the employer or predecessors for Employment during the thirty-six (36) month immediately preceding the computation date}}$$

Example Debit Ratio: Experience Balance divided by the 36 month payroll equals a ratio. The ratio is then applied to the applicable schedule listed below, and this is his rate for the next year effective 1-1-YY.



Rate Schedule for Accounts with Debit Balances

When the debit Reserve Ratio is:

| As Much As | But Less Than | Rate Schedules (%) | | | | |
|------------|---------------|--------------------|------|------|------|------|
| | | A | B | C | D | E |
| | 1.50 | 4.40 | 4.30 | 4.20 | 4.10 | 5.40 |
| 1.50 | 3.00 | 4.70 | 4.60 | 4.50 | 4.40 | 5.40 |
| 3.00 | 4.50 | 5.00 | 4.90 | 4.70 | 4.70 | 5.40 |
| 4.50 | 6.00 | 5.30 | 5.20 | 5.10 | 5.00 | 5.40 |
| 6.00 | | 5.60 | 5.50 | 5.40 | 5.40 | 5.40 |

Employers with a debit balance account (UI benefits charged exceed the taxes collected) are evaluated and a tax rate is assigned in accordance with the rate schedule for accounts with debit balances. The tax rates will range from 4.4 percent to 5.6 percent for these employers, depending upon the schedule in effect for the year

In summary, the purpose of this information and the examples is to demonstrate how UI tax rates are determined.

What will cause my rate to increase?

For every employer covered by the Indiana Department of Workforce Development Act, DWD maintains a separate record, identified by an individual account number.

Each quarter your unemployment contribution, voluntary payment, or reimbursements to DWD for benefit overpayment, the amount is credited to your experience account balance. Charges made against your account are for unemployment insurance drawn by your former employees, or employees working reduced hours or on layoff. Unemployment payments are charged proportionately against the accounts of all base period employers.

An increase in contribution rate may occur if an employer's taxable wage has increased, or if the employer's experience balance has decreased due to benefit claims drawn against their account, or if a refund has been issued.

What is a voluntary payment?

Each year during the merit rate calculation process the employer is offered the opportunity to make an additional voluntary payment to obtain a lower tax rate. This is not offered to those employers that do not meet requirement A, B, and C, and those employers that have the lowest rate possible for the calculated year.